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SEED MONEY AND A WINDOW FOR CONTACTS***

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ODA for China: Seed Money and a Window for Contacts

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The Chinese economy has been growing with an average of around 10 per cent during the last 25 years. Recent figures show that some 400 million people out of its huge population of 1.3 billion, rose above the poverty level (one dollar a day) during 1997-2002¹. Walking in downtown Shanghai or Beijing, you can find some spots that are so luxurious that they are unrivalled in the world. China somehow does not fit the picture of an average developing country. In purchasing power terms, it is already said to be the second largest economy in the world, bound to overtake the US as the world's largest economy in the near future. China received more foreign direct investment than any other country in 2003. It is the only "developing" country that holds a permanent seat in the UN Security Council and holds enough technological skill to send astronauts (or taikonauts as the Chinese call them) into space.

However, China is still a large recipient of foreign aid. Figures from OECD show that in 2003 the People's Republic of China received USD 1.3 billion. ODA (Official Development Assistance),² however, only amounts to 0.1 percent of Chinese GNP, which is very low. The Chinese economic growth is certainly not dependent on foreign aid and China is in fact giving aid to other countries itself (see Appendix 1). At the government level in Beijing, ODA is seen as seed money, a window for contacts with foreign experts and technologies or as cheap financing. At the implementation level, however, ODA is often highly appreciated.

This paper will start by looking at China as a recipient. What are the processes of receiving aid, what do the Chinese want to get out of it and what are their priorities? This will be followed by a description of China's main donor, Japan, where aid to China is a highly political and controversial question. Japanese aid processes will be described and we will look into loan aid, grant aid and technical assistance cases. After a short description of Nordic aid to China in general, we will look at Swedish aid and make a case study of a technical cooperation project. In the conclusion, China as a recipient will be analysed, as well as Japan and Sweden as donors looking specifically at the concept of ownership, partnership and institutional change.

As these concepts will be dealt with elsewhere only operational definitions will be given here.

Ownership can be divided into ownership of objectives and processes. Ownership of objectives can be: 1) commitment to a project and organisational competence of executing it; 2) knowledge output (an organisation can acquire knowledge if individuals acquire personal knowledge that they put to the use of the organisation); and 3) material input or output (e.g. property rights). Ownership of project processes means the assumption of responsibility for project formulation, implementation and control.

More generally, ownership is about who decides what, but in more specific terms, national ownership is determined by the legitimacy of the government and its institutions. We also know that there is a trade-off between the concept of ownership and partnership. Strong

¹ *Dagens Nyheter*, April 24, 2004

² Foreign Aid as defined by OECD's Development Assistance Committee.

recipient ownership means less partnership, in the way donors have defined it. It means that donor agencies will have less influence and will have to lower their ambitions for taking active part in policy dialogue and reform processes. Partnership implies a certain amount of dialogue and a larger role for the donor in the processes.

China as a recipient: From Past to Present

China's development process and the use of foreign aid can partly be explained from a historical viewpoint. Being the 'Middle Kingdom' with a long cultural tradition and the largest population in the world has formed the way the Chinese view the world and their own role in it. After the breakdown of the relations with the Soviet Union, in the early 1960s, they began to emphasize a policy of "self-reliance" and during the "Cultural Revolution", when there was comprehensive confrontation with the USSR and the USA, this tendency was strengthened. Under the policy of self-reliance all foreign borrowings and acceptance of outside assistance were denounced as humiliation of the country and in most cases rejected.

It was only after China declared its economic reform and open-door policy in 1978 that multilateral organizations and various OECD countries began to give aid, in 1979. The amount of aid steadily increased but with the military crackdown on the pro-democracy demonstrations on Tiananmen Square in June 1989, economic sanctions were introduced and foreign aid was temporarily stopped.

This served as a reminder to the Chinese that there are two sides to every coin. With the benefits that aid had brought there was also the possibility of foreign influence and that such aid could be withdrawn if other countries did not like what China did. There was also the problem of accumulating international debt. The Chinese debt problem grew after June 1989 when private capital was withdrawn due to political uncertainties.

Economic sanctions and withdrawal of foreign aid in 1989, however, gave new actuality to the policy of 'self-reliance' or, at least, showed the importance of not being too reliant on others. To keep control is an important component of Chinese policy and one that they are implementing in the field of their own development. Although they are accepting aid from abroad the Chinese government has made it clear that they do not want any external agent to co-ordinate or control aid to China. Thus the Chinese side does not participate in the coordination meetings organised by the donors but like to deal with them one by one. Once a year, however, the Ministry of Commerce, hosts its own meeting with all the donors informing them of what the Chinese priorities are. In this sense China must be said to exercise strong ownership over its own development.

The organisation for receiving aid in China is complicated with a number of different Ministries acting as counterparts to different types of aid from different countries. During the early years at the end of the 1970s there were an increased number of ministries and other central government agencies that began to act as a designated official body in receiving and managing aid. In the case of receiving multilateral aid, the Ministry of Finance was responsible for that from the World Bank, and the People's Bank of China for that from the Asian Development Bank. Government agencies receiving bilateral aid were many more, largely dependent on donor countries and the specific nature of aid projects. Consolidation has been taking place since the late 1990s. From 2000 it has been made clear that the basic structure for receiving and managing aid consists of three ministries: the Ministry of Finance for all loan aid, multilateral and bilateral; the Ministry of Commerce (MOFCOM) for grant-related projects; and the Ministry of Science and Technology (MOST) for technical assistance projects.

There have been several general guide principles, implicit and explicit, effectively adopted by the central government in dealing with receiving and managing aid:

- One agency deals with all loan aid projects from one source (one country in the case of bilateral loan aid). This principle is meant to have a government agency to act both as a negotiator with foreign aid agencies and a possible domestic distributor for aid money. As the sole representative in external negotiation, the designated government agency tends to have large bargaining power over conditions and clauses of receiving aid as well as the actual use of aid money. The principle also in effect rules out the possibility of foreign aid agencies to distribute their resources in the recipient market on their own initiative.³
- For the approval process, several Ministries work together. The most important government body in this regard has been the State Development and Reform Commission (SDRC).⁴ This commission has a function of controlling the total amount of annual investment, including that of foreign funds. All domestic investment projects are required to obtain its prior approval. With this, SDRC participates in the process of approval with other Ministries in deciding which and how much a domestic end-user should use aid money. SDRC often lists key or priority areas for investment such as infrastructure, energy, environment protection, as well as ordinary industrial projects in less developed regions.
- For loan aid projects, end-users are required to provide guarantee schemes. As the designated sole representative and contracting party for loan aid projects, the Ministry of Finance has the final obligation to make repayment. However, in practice, MOF usually pass this obligation to regional and local end-users who are required to find appropriate domestic guarantors before their application for loan aid is approved. Frequently in practice, there have been domestic financial institutions that perform the function of “re-lending” of loan aid, i.e., aid money first goes to the financial institutions, and the latter would, in turn, lend the money to designated end-users. Only in the case when domestic end-users, together with their guarantors and re-lending agencies, were found incapable to fulfil the obligation, would the MOF begin to act in response to repayment requirements of international creditors, either aid agencies or private lenders. The system of domestic guarantees and tight requirements for repayment appears to have worked well during much of the past time since China began to receive loan aid, as it has rarely seen MOF work in the way described.
- Regional agencies may obtain the ownership of an aid project upon its completion. Though there are hardly any explicit regulations or legislation on the determination of ownership of an aid project upon its completion, in practice it is usually attributed to the regional or local agency that has initiated and run the project. The agency may be a regional or local government department or one of its affiliated firms. Any of these is regarded as the end-user of aid money that bears ultimate responsibility to make repayment for the loan aid in concern.

³ During the 1980s it was the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) that was responsible for receiving all sorts of aid, including loan aid, grant, and technical assistance. After organizational restructuring, there has been a “division of labour” between three Ministries for receiving different types of aid, as indicated earlier.

⁴ Formerly State Planning Commission (SPC) or State Economic and Trade Commission (SETC).

The Ministry of Finance (MOF) and Its Role in Handling Loan Aid

The basic reason for MOF to be singled out as a sole agency in handling the yen loan aid and many other loan aid projects is that it bears the ultimate liability to make repayment of the loans when they are due. Yet in fact, it is another government agency that has actually played the most important role in allocating loan aid among Chinese users. This is the State Development and Reform Commission (SDRC).

In practice, it has been MOF that first negotiates the total amount and terms of loans with, for example, Japanese aid agencies (JBIC, the Japanese Ministry of Foreign Affairs, the Japanese Embassy in Beijing, and so on), together with other relevant Chinese government agencies. When the total amount and terms of loans (perhaps sometimes also suggested key areas of targeting) are determined, MOF distributes the information and concrete guidelines to other Ministries and regional finance bureaus in all 31 provinces. Because most of the yen loan aid is used for large-scale construction projects, SDRC holds the power to allocate and decide which projects should be on the final list to proceed through MOF with Japanese aid agencies for approval. This method is also, in general, used in dealing with loan aid from other sources such as the World Bank.

There have been what may be called “parallel” channels for MOF (in a similar way also for Ministry of Commerce, MOFCOM) to circulate the information of likely aid projects. First, MOF notifies all other central government ministries of possible or actual agreements with foreign aid agencies; second, MOF notifies all provincial fiscal bureaus of virtually the same information. Either way, MOF invites applications for aid projects. As mentioned earlier, either at the national or sub-national level, all applications for using aid money in investments must be approved by SDRC. With this regulation, all central ministries, provincial fiscal bureaus and other relevant bodies need to consult with SDRC at an appropriate level. SDRC also has a similar national network, i.e., each province or city has its own SDRC department.

In principle, an applicant for loan aid may not contact the foreign aid agency before it has its Project Proposal approved and finalized⁵. In practice, it is not unusual for applicants or potential applicants to make contacts well before the actual application process. In some cases, persons from donor countries may also possibly play a large role in connecting an end-user and an aid agency⁶. It is believed that there may be a good deal of informal contacts before formal ones, both between domestic government agencies and between domestic end-users and foreign aid agencies

Ministry of Science and Technology (MOST)

The Ministry is responsible for technical cooperation projects with foreign aid agencies. Nationally it also has a network linked with provincial bureaus of science and technology. In proposing the finalist of application with aid agencies, MOST works with other ministries and regional bodies through a process similar to that of MOF. According to the MOST classification, there have been two types of TC projects with Japan: Development Study (DS) and Special TC. DS is often a field study prepared for conducting large scale investment project such as hydropower generation, airports, highways, and so on. Many of these projects are those which will use Japanese loan aid at their later stages. On the other hand, STC may

⁵ MOF and SPC “Opinions on Further Strengthening the Management of Foreign Government Loans”(May 30, 2000), in *Guidelines for Managing Foreign Government Loans*, edited by the Finance Department, MOE, China Finance and Economy Press, 2000, p.6.

⁶ A case is documented in the “Achievements of Sino-Japan Economic and Technical Cooperation: Commemoration for the 30th Anniversary of Normalization of Sino-Japan Relations”, edited by PRC MOF, MOFTEC, and MOST, 2002, pp.130-131 says that a visiting Japanese scientist actually initiated Chinese partners to enter the formal process of applying for Japanese grants and finally succeeded.

be an independent project, many falling into areas of establishing a research, training, or maintenance centre. Between 1981 and June 2002, there were a total of 111 DS projects and 62 STC projects with Japan.

Ministry of Commerce (MOFCOM)

The Ministry of Commerce is in charge of grant aid from Japan but for technical cooperation with Sweden. All proposals for aid projects under the domain of the Ministry of Commerce should be channelled through them but in the new more decentralised Chinese organisation there are also a lot of contacts going on between different line ministries or provincial governments and the donors directly. The Ministry of Commerce is, however, responsible for conducting a policy dialogue with the donors. That is, MOFCOM informs the donors on what their priorities are, and the donors tell them what kind of support they want to provide. The Ministry of Commerce relays this information to the provincial governments and line Ministries.

Networking between the Central Government and Regional Units

As indicated earlier, the three Ministries, MOF, MOST, and MOFCOM, each have their own regional network agencies in all provincial regions, and these provincial bureaus in turn have their network agencies in lower-level regions and cities. Information flows and domestic approval process are taking place basically within this organizational system. Many would view this system and process as a “top-down” way.

However, there has been in effect also a “bottom-up” way in receiving aid. Given the known information of aid and possibility of obtaining aid, many regional agencies and their affiliated project operators often go another way around, i.e., they initiate a project proposal, seeking various funding sources or outside help, ultimately succeeding in getting in touch with aid agencies. Both central SDRC and regional SDRC have played a large role in this process. They advise project sponsors or operators to go for aid sources, either at an initial or intermediate stage of the project.

Many aid projects have regional or local institutions, either a business unit (a company) or social unit (a hospital or a university for instance), as sponsors or operators. Being as a state-owned institution, these end-users of aid usually enjoy the ownership of the aid project, though to some extent no explicit or clear definition has been made between a regional or local government and the institution per se. The ambiguity in the ownership may have actually increased the incentive to local operators in seeking aid or external funding source for their project undertaking. The local operators (end-users of loan aid) may thus enjoy *de facto* control over the project for an indefinite period, and when there is a call for redefining the ownership, they are usually able to seek compensation if there is a loss in their economic interest.

In another respect, when they receive a large-scale loan aid, local operators are allowed to use foreign exchange markets to hedge against exchange rate risks with regard to their repayment arrangements. This has been a special policy treatment for domestic users of foreign loans, made available after the rapid fluctuations in the Japanese yen/US dollar exchange rates during the 1990s.

Japan as a donor in China

Japan is one of the largest donors of foreign aid in the world. China is one of its closest neighbours and has for many years been one of the top recipients. Japanese aid to China started already in 1979. It has mostly consisted of loans with conditions favourable

enough to classify them as ODA⁷ (that is, with a grant element of at least 25 per cent). Japan has been the main bilateral donor to China. After a 45 per cent cut in aid to China during the last three years, the aid budget for fiscal year 2003⁸ was still around USD 760 million.⁹ In China, Japanese aid has most often been regarded as a substitute for the war compensation that the Chinese never claimed and is often regarded as something the Japanese are morally obliged to pay. In Tokyo however, Chinese aid has become a very sensitive issue during recent years and has been highly criticised by domestic opinion groups that feel threatened by China's economic growth as well as its more assertive international political position and military build-up.

The size of the Japanese budget, as well as the fact that aid mainly consisted of loans, to a certain extent affected the type of project conducted. So has Japan's own aid thinking, based on its own experience, where there is a strong belief in development through industrialisation. In line with this, Japanese projects have concentrated on building economic infrastructure in the form of roads, railways, ports and power plants. To start with, aid was given in five-year packages following the Chinese five-year economic planning. It was highly request based and only projects within China's own planning could be considered.

Summary of Yen Loans to China (1980-2001)

Period	Total Amount	Terms	Key Areas of Use
First Batch (1980-1984)	JPY 330.9 billion	Interest rate at 3%, maturity of 30 years (including 10 years of grace)	7 construction projects of railways and ports
Second Batch (1985-1989)	JPY 540 billion	Interest rate at 2.5- 3.5%, maturity as the above	17 construction projects of railways, ports, telecommunication, gas, water, etc.
Third Batch (1990-1995)	JPY 810 billion	Interest rate at 2.5%; maturity as the above	New areas include chemical fertilizers, bridges, airports, etc.
Fourth Batch (1996-2000)	JPY 969.9 billion	0.75-2.3%, maturity as the above	New areas include highways, urban pollution control, forestry, etc.
From 2001, annual review and decision	JPY 161.3 billion for 2001	0.75-2.2%; maturity of 30-40 years (including 10 years of grace)	Environment protection, poverty reduction and education in China's central and western region

Source: Yu 2002¹⁰

However, this practice changed due to the strong Japanese domestic opinion against aid to China. Japan created its own country assistance program and put up its own terms for the fields and geographical areas where Japanese aid should be distributed. Now Japan is

⁷ According to a formula worked out by DAC, OECD's Development Assistance Committee.

⁸ The Japanese fiscal year runs from April 1 2003 until March 31 2004.

⁹ According to Japanese Official Statistics, JBIC yearbook 2004.

¹⁰ Zhensheng YU (Deputy Director-General, Department of Finance, PRC MOF), "Yen Loans: Symbol of Sino-Japan Friendship Cooperation", in *Achievements of Sino-Japan Economic and Technical Cooperation: Commemoration for the 30th Anniversary of Normalization of Sino-Japan Relations*, edited by PRC MOF, MOFTEC, and MOST, 2002, pp.24-25

putting more emphasis on the conservation of the environment and eco-systems, improving living standards and social development in the inland and western regions of China, human resources building, institution building and technology transfer. The present country assistance program is a one-sided document which took Japan almost two years to agree upon domestically, due to the intensive debate. It has not been negotiated with the Chinese counterpart. Despite this, it is in line with many of the Chinese priorities, such as to put more emphasis on aid to the western and inland areas.

Recently Japanese Prime Minister Koizumi announced that the loan aid will be phased out by the time of the Beijing Olympics in 2008. According to officials at JBIC¹¹ this is likely to be a gradual process, and aid in the form of technical cooperation will still continue beyond 2008.

The ODA picture on the Japanese side is a rather split one, both on a policy- making and implementation level. The Japanese Foreign Ministry holds the main responsibility for policy-making, but on loan aid there are actually two other players involved, namely the Ministry of Finance, and the Ministry of Economy, Trade and Industry (METI). There are also a number of other ministries involved, depending on the issue; for example the Ministry of Environment is one of the key players for environmental issues. On the implementing side, JBIC is responsible for loan aid projects. Over the years, roughly 90 per cent of all the aid to China has been loan aid; the two other categories of aid are grant aid and technical cooperation. Here the picture becomes more complex. JICA¹², formerly under the jurisdiction of the Ministry of Foreign Affairs, has an independent status since a few years back and what is called “full ownership over technical cooperation”. Although the Foreign Ministry is responsible for the grant aid, JICA conducts assessments and helps in implementing grant aid as well. This is the official picture. Turning to China, the situation becomes much more complex and one soon realises that there are many interests competing for their share of the technical cooperation. While in most recipient countries, at least well over 50 percent of the technical cooperation is channelled through JICA, in China it is only 20 per cent. Both JETRO (Japan External Trade Organisation) and NEDO (New Energy Development Organisation) channelled well over 20 per cent each of the technical cooperation¹³.

The JICA office in Beijing has 18 Japanese and 27 Chinese employees. It is the third biggest JICA office abroad, after New Delhi and Manila. As China is becoming a richer country, moving from part 1 to part 2 of the DAC list¹⁴, grant aid is supposed to be phased out. In certain areas such as mutual understanding, which is especially important in China,¹⁵ it is likely to remain. There are several technical cooperation projects for mutual understanding that are managed by the Japanese prefectures that have direct contact with their Chinese counterparts. There are also many projects that have contact-making as a central component. Every year, 40 officials from the Chinese central government are offered university educations in Japan. Training courses for officials from the Chinese Ministry of Public Security and the Japanese police have been held. Contact-making is considered important for crime prevention, so that officials in Japan know their Chinese counterparts when they need to get in contact regarding Chinese criminals in Japan. Training courses have also been held concerning fair trade, where officials from the Japanese Fair Trade Commission have been

¹¹ Interview with Suguru Miyazaki, Japan Bank of International Cooperation, February 2005.

¹² Japan International Cooperation Agency

¹³ Interview with Toru Uemachi, JICA, Beijing, March 2005.

¹⁴ That is, the OECD's Development Assistance Committee list over the recipient countries, where part 1 consists of the poorer countries eligible for grant aid and part 2 comprises the relatively more wealthy developing countries.

¹⁵ Recent anti-Japanese demonstrations in several places in China show that anti-Japanese sentiment is still strong and very easily aroused.

able to meet with Chinese officials during the drafting of their new Fair Trade Act. This kind of ODA to China is likely to continue.¹⁶

The JBIC office in Beijing has 3 Japanese and 7 Chinese employees. Recently the office has had a severe cut in their yearly budget. A long list of projects was presented by the Chinese side in 2002; however, the budget has decreased to such an extent that this list has become obsolete and many of the proposals will never be realised. The largest part of Japanese ODA to China, however, is still loan aid. In 2003 the total amount was USD 760 million (consisting of grant aid, 73 million; technical cooperation, 300 million; and the rest, loan aid)¹⁷. Nowadays most of the projects are province-oriented and JBIC has less contact with the line ministries than previously. Although the budget has been decreasing, the number of projects has been increasing; currently there are over 100 on-going loan aid projects and the JBIC officials that are responsible for checking procurement and disbursement have a hard time coping.

A Typical Japanese Loan Aid Project

Tianjin is an industrial city with 4 million inhabitants located one and a half hours' drive from Beijing. Although situated on the delta of the Haihe River that runs out to the Bohaiwan in the Pacific Ocean, Tianjin is an area with extreme water shortage. When China opened up its economy in the 1980s a development zone was established here. Many foreign companies profiting from China's cheap labour made Tianjin their production base for goods that were later re-exported. At that time, some 40-50 per cent of the untreated waste water was let out directly into the river, leading to rapid deterioration of the environment with a stench that heavily affected the lives of the people in the city. Doing something about the pollution thus became a high priority for the local government. The problem was noted even at the state level; the Haihe was one of the three most polluted rivers in China.

In 1984, the first waste water plant was built in Tianjin. At the time it was the biggest in China and could clean 260,000 tons of water per day. As this was not enough, another one with a capacity of 400,000 tons was opened in Dong Jiao in 1993. Still this was not enough to cover the needs of Tianjin and plans started to take form for the Hei-Hu Valley Tianjin Waste Water Management Project, a gigantic project that consist of three main parts: 1) a reconstruction and enlargement of the oldest plant; 2) building a new plant with a capacity of 400,000 tons per day; and 3) building a network of sewage pipes for the city. The total project cost was estimated at RMB 2.254 billion (USD 270 million). This was an astronomical sum that Tianjin would need help in raising. This help would come from several different sources.

The main financier was the Tianjing government itself, that through various means (among others special government bonds to stimulate demand after the Asian crisis), managed to raise RMB 1.05 billion (USD 125 million). The Chinese State Development Bank came up with RMB 700 million (USD 85 million) and JBIC with JPY 7.142 billion (RMB 500 million or USD 60 million) which was roughly around 20 per cent of the total cost. The Japanese contract was approved in 2001 and mainly covered the purchasing of equipment. It was divided into two parts. One loan of JPY 5.6 billion with an interest rate of 1.7 per cent and an extra 20-year period of grace (30-year repayment period). For this loan the condition for the main part was "limited competitive bidding", which meant that only Japanese and Chinese companies could compete for the orders. Japanese equipment is quite expensive and in the beginning the guidelines seemed hard but in reality things turned out to be different.¹⁸ In the end around 10 per cent of the equipment was bought from Japan and the rest were Chinese-

¹⁶ Interview with Kenji Maekawa, Ministry of Foreign Affairs, Tokyo 2005.

¹⁷ JBIC Yearbook 2004.

¹⁸ Interview in April 2005 with Biao DENG, chief engineer of Tianjin Sewage Co and vice manager of this project.

made in different joint ventures with foreign companies. This way Tianjin Sewage Co even managed to purchase below expected cost and received permission to use the remainder of the money for complementing work that had not been included in the budget from the beginning. The second loan of JPY 1.6 billion had an interest rate of 2.3 per cent, slightly higher than the other loan, and a repayment period of 25 years. This one had “international competitive bidding” for its contracts.

The local government in Tianjin has set up a special office to manage this project as well as another sewage project with financial support from the Asian Development Bank. In Tianjin they had hoped to receive Japanese money already in 1999 but at that time there was no formal approval from the Chinese State Development and Reform Commission, which works together with the Chinese Ministry of Finance to coordinate all loan aid from abroad. The State Development and Reform Commission had to send an inspection team to Tianjin before any decisions could be made although the project was on the list for the fourth Japanese yen loan period.

In China there is a national competition for getting projects approved for Japanese ODA loans. The three main considerations are: 1) JBIC’s guidelines, that is, the projects have to fit with what Japan is willing to finance; 2) there has to be Chinese approval both on the regional and on the state level; the degree of urgency of the project is then considered; 3) there has to be sufficient local funding already secured for the project.

Once JBIC got the list of projects that the Chinese government requested, they undertook a preliminary study, which led to a site visit and a feasibility study, and finally they started negotiating on contracts. At the time of the waste water plant project, the list of projects was still short, meaning that most of the projects on the list received financing. This has now changed to a long list so that the Japanese side has a number of projects to choose from. The environment assessment agency of JBIC also came to Tianjin. The Japanese side sent a number of technical experts that made recommendations and suggestions but the actual blueprints for the project were made by Tianjin people. Once the projects started there has been almost no contact between the project management team and JBIC.

The Hei-Hu Valley Tianjin Waste Water Management Project is a project that has worked smoothly and it will be finished on schedule this year. By that time all the recycled water produced will have reached the national agriculture usage standard; some 50,000 tons a day will have reached a standard where the water can be used by the households, but not for drinking.

To be able to repay their loans in the future, the Tianjin government is now charging the consumers. Every citizen pays 60 cents per ton and industry pays 1 cent per ton. The top Chinese engineers at this project got training abroad.¹⁹ Since the 1980s, other cities in China have been sending their staff to Tianjin for training in waste water management. Tianjin also sent experts to other parts of China. Comparing the experience they have with multilateral financing through World Bank and the Asian Development Bank Tianjin people find the procedure with JBIC simpler and more convenient.²⁰

A Japanese Grant Aid and Technical Cooperation Project

The building of the Sino-Japan Friendship Centre for Environmental Protection was ready in 1996, financed through a Japanese grant aid of JPY 10.5 billion (USD 95 million) and a funding of RMB 66.3 million (USD 7.5 million) raised by the Chinese government. It has a rather central location 23 km from Beijing Airport. The Centre consists of a research lab building, an international conference hall, a residential building for experts, accommodations

¹⁹ Mr Biao DENG that we interviewed had been on training courses in Germany, US and Japan.

²⁰ Interview with Ibid. DENG.

with dining hall for trainees and a power and energy building. There is a Department of Pollution Prevention and Control Technology that has a simulation lab building and a precision instrument building. The Centre mainly works with questions of pollutions in various forms.

About 30 per cent of JICA's budget is spent on environmental projects. Of this, one fourth is spent on various pollution projects, of which 40 per cent goes through the Centre which acts as an umbrella organisation for other centres or as a bridge to a number of other projects.

The Centre is formally under the State Environmental Protection Agency (SEPA), the Chinese bureau on a sub-ministerial level which is responsible for environmental questions. Every division within the Centre, however, has a counterpart from the Japanese expert team. There are around 200 to 300 Chinese people working at the Centre and at the moment 7 Japanese experts. There is one expert from the Japanese Ministry of Environment who works with environmental assessments, manages yen loans and technical cooperation and judges if a mix of the two are possible for various projects. Besides the buildings and the equipment in them, which were financed by grant aid, there is also technical cooperation being extended from Japan to pay for knowledge transfer, educational programs and various activities at the Centre. There has been three phases of technical cooperation in connection with this centre. The first started already in 1992-1995 during the construction of the building. A second phase in 1996-2002 was focused on developing basic abilities of the staff. The third and current phase of technical cooperation, 2002-2006, addresses some of the environmental problems.

The idea for this Centre initially came from Japan that was worried over the development of the environment in China. As China's industrialisation picked up speed, the Japanese environment was affected as well and acid rain started to fall even there. The Chinese at the time thought that they had more pressing needs but agreed to the Centre.²¹

Local environmental bureaus in the different Chinese provinces cannot turn directly to the Sino-Japanese Friendship Centre. Proposals for new technical cooperation projects have to be taken through SEPA to the Ministry of Science and Technology to be formally forwarded to the Japanese side. Japanese ODA money can be used to cover 50 to 70 per cent and sometimes up to 80 per cent of the cost for new projects. According to Japanese officials at the Centre, there is no free exchange of information in the environment field among the donor communities. They would like to see a more widely open Centre, but SEPA has not recognised an "open policy" at the moment so this will have to wait for the future.

The Sino-Japanese Friendship Centre seems to be widely known in circles that are interested in environmental questions. There are many provincial government officials who have participated in various training programs offered at the Centre. A problem faced by the Centre is the budget deficit, common to most Chinese bureaucracy; officials are busy fundraising, doing work outside the Centre, due to the lack of a proper budget. The people at the Centre have good contacts with SEPA, but SEPA as such is rather compartmentalised and does not have enough power, so that it has difficulties in executing environmental policy.

The Nordic donors in China

All the Nordic donors are present in China, although none on any larger scale. As one official at the Norwegian Embassy²² put it, people back in Norway have to understand what this is all about. ODA is just as interesting for the Norwegians as for the Chinese, but the Norwegian aid is very small and hardly visible. It is difficult to get a dialogue going with

²¹ Interview with Isaka Kazutaka of JICA at the Environment Centre in Beijing March 2005.

²² Interview with Monika P. Thowsen, Norwegian Embassy in Beijing, March 2005.

China and aid can help with that. The most important question is not the amount of Norwegian aid *per se*, but how China will develop as an active aid partner in the future.

In Asia, China is already a large donor to Mongolia and Sri Lanka. The British give courses to the Chinese in good donorship. The Norwegian grant aid (there is no distinction between grant aid and technical cooperation) is mainly in the field of environment cooperation. At the Norwegian Embassy in Beijing there is an Environmental Counsellor from the Norwegian Ministry of Environment. A Memorandum of Understanding concerning aid exists between the Chinese Ministry of Commerce and Norway. The Norwegian Embassy in Beijing makes the decisions concerning bilateral aid which amounts to roughly NOK 18 million (USD 2.8 million). In total, Norwegian aid amounts to around NOK 80 million (USD 12.3 million). There used to be some Norwegian loan aid but there is no Chinese interest for this any longer. NGOs are supported on a project basis. There is a health project and some discussion on human rights at a vice ministerial level. Besides this there are also funds to support Norwegian business interests in China.

Denmark²³ has hardly any aid to China. It has 15 program countries and China is not one of them. Aid amounts to less than DKK 5 million a year (USD 840,000). It is inconsistent and projects appear from time to time. There is some NGO assistance and some special fund for human rights and good governance. The Danish Centre for Human Rights has one project that is in phase II, ending in 2005. They are now preparing a third phase. There is an educational project in Tibet concerning human rights and a teacher training program in Lhasa; a project supporting village elections in Yunnan Province together with the Chinese Academy of Social Sciences, and another one starting in Xiyuan. There is also a program of export credits to China, in the field of energy, environmental issues, road construction, hospitals or agriculture. Geographically, projects with export credits are only allowed to the western or northeastern parts of the country. China is the biggest recipient of all countries of this type of credit from Denmark. In total, some 60-65 projects have been granted around USD 300 million in export credits. 50 per cent of the content in these projects must be Danish.

Finland²⁴ gives humanitarian aid to China. The Finns are building a school in Tibet and have about 2 or 3 projects annually, on a level of about EUR 20,000-25,000 per project (USD 25-37,000). Finland used to give quite large amount of concessional credits but since new and stricter terms were agreed upon, the amounts have been reduced. Dominating in this field are projects in the environmental field (water usage plan and municipal planning) and medical field (hospitals and medical equipment). The concessional part of these loans amounted to EUR 8-10 million (USD 10-13 million) in 2003.

Although the overall goal for Swedish aid is poverty reduction, there are no large projects focusing directly on that in China. Nor is it mentioned in the present five-year country strategy for China. Sweden emphasizes supporting the inflow of new ideas and in that way speeding up the ongoing reform process. Swedish aid to China started already in 1979. The first specific country strategy for China was in 1997-2001. The second one is the present period, 2001-2005, and studies are being undertaken for a third country strategy for 2006-2010, now labelled cooperation strategy encompassing a number of other fields beside aid. The present country strategy focuses on three sectors: 1) human rights, democracy and legal development; 2) increased gender equality and social security; 3) environmentally sustainable development. In the first sector, the largest program is the one through which the Raoul Wallenberg Institute has trained more than 300 Chinese civil servants and academics in human rights since the mid-1990s. In the second sector, cooperation in the area of health has increased. Sweden has a project on HIV/AIDS in cooperation with WHO. To coordinate projects in the third sector, there is an environmental counsellor stationed at the Swedish

²³ Interview with First Secretary Thierry Hoppe, Danish Embassy in Beijing, April 2005.

²⁴ Interview with Ari Siren, Finnish Embassy in Beijing, April 2005.

Embassy in Beijing. During the present country strategy period for China, the yearly allocated budget has been SEK 40-50 million (USD 5.5-6.5 million) as well as credits and support for NGOs. It has mostly been so-called KTS projects, that is, contract-financed technical cooperation, where SIDA pays for the costs for Swedish consultancy and China pays for local costs. These projects are handled by the KTS-department at SIDA, and in 2004 they amounted to roughly to SEK 33 million(USD 4.4 million).

There is also project support, cooperation through Swedish NGOs and various bilateral training courses as well as concessional credits. The last category, which is outside the country allocated budget, has been very big. During the past ten years, China has received SEK 1.2 billion(USD 165 million) in concessional credits. The aid part of this is 35 per cent, which mean roughly SEK 400 million (USD 55 million). The main portion was extended more than five-years ago. Since then, the demand has drastically decreased. The budget of these concessional credits are tied, in the sense that 70 per cent of the goods purchased have to be Swedish. The procedure for receiving such credits is considered cumbersome and time-consuming by the Chinese. SIDA has been dealing with the Ministry of Finance in China concerning the credits; however, recently the SIDA representative at the Embassy was informed that the Chinese were not interested in negotiating from the present platform.²⁵ A revision of the present terms is also underway in Sweden.

Concerning the Human Rights Program of the Raoul Wallenberg Institute, the Chinese counterpart is the Ministry of Foreign Affairs. Otherwise the window for Swedish aid is the Ministry of Commerce, but there is no Memorandum of Understanding between the Ministry and Sweden, although this has been requested by the Chinese. Instead, there is an exchange of letters for every project. The present country strategy is a one-sided Swedish document which was never discussed with the Chinese. In forming the new cooperation strategy, a draft was for the first time shown to the Ministry of Commerce,²⁶ but there is no dialogue and there will be no cooperation agreement.²⁷

Air Pollution in Qingdao – A Typical Swedish Technical Cooperation Project

Qingdao has China's third largest container harbour, and the city has considerable international experience. It was colonised first by Germany and then by Japan. Qingdao has experienced severe pollution problems and it has been designated a key national project to turn it into a clean city. Right now the city is cleaning up for another reason as well. It is preparing for the Olympic Games in 2008, when it will host the sailing competitions.

Sida finances a contract for technical cooperation between Qingdao Environmental Protection Bureau (QEPB) and ÅF International/Opsis to develop an air Quality Management System for the Qingdao area. This is the second phase of a pollution control project. This is also rather typical for Swedish technical cooperation, as many of the projects enter a second phase and continue cooperation once the first phase is finished. Sida's contribution this time is SEK 7 million (slightly less than USD 1 million) over a period of 2.5 years. The project started in 2003, but was delayed due to the outbreak of SARS and will now probably be finished in June 2006.

The first phase of this cooperation project started already in 1997 and finished in 1999. At that time it was a technical cooperation project between the County Administrations of Western Götaland and Bohuslän (Länsstyrelsen i västra Götaland och Bohuslän) and SMHI, the Swedish Meteorological and Hydrological Institute, and QEPB. A friendship city

²⁵ Interview with Anicka Siewertz, Swedish Embassy in Beijing March 2005,

²⁶ March 2005 according to the Ministry of Commerce.

²⁷ The Chinese side is not likely to agree on the writings of human rights and democracy

agreement exists between Gothenburg²⁸ and Qingdao. It was at the initiative of a Chinese businessman who was the head of the Sino-Swedish Association in Qingdao that the discussions over this project started.²⁹ Mr Young Chen wanted to get advanced management knowledge and technical equipment in the field of environment. In a private capacity he led a delegation of businessmen to Gothenburg where he met officials of the local government. A Swedish technician, who at the time was a salesman for a smaller Swedish company and later became an employee of SMHI, helped the Chinese in 1995 in writing an application.³⁰ SIDA accepted the application and the salesman also became the project leader. There was actually a person from Opis that participated in phase 1 as well. The budget for the first phase was SEK 2.9 million (USD 400,000) provided by Sida and RMB 1 million (USD 114,000) from the Qingdao Municipal Government. In the first phase the project was not limited to only air but also included monitoring of water pollution. The Swedish side provided technical assistance and software development, as well as some equipment. The first phase of the project was “not really fit for local conditions” as Mr Song³¹ put it or “did not really get the seed to start growing” as Kjell Eriksson³², contact person for phase 2, phrased it..

It was going to take four years, however, before the second phase could start. This time the procedure had been considerably stricter and more time consuming. The County Administrations were not interested in continuing the project. There were two different consortia bidding for the project, which now not only consisted of transferring knowledge and technology for measuring and understanding air pollution, making different kind of simulations to find out the most cost effective ways of reducing the pollution, but also had an institutional part, strengthening the group working with measuring of air pollution, making them write an action plan and trying to establish the results politically. This time it was not the SMHI group but a new one with ÅF and Opis that won the contract on the Swedish side.

Of the budget for phase 2, roughly SEK 1 million has been used for the technical system, and more than SEK 5 million has been used for Swedish consultants. The Chinese side has also invested themselves in the technical system. Compared with phase 1, the leadership on the Chinese side of the project has improved considerably. The Chinese spoke better English, and the one with operational responsibility has changed from the head of the IT-section to the head of the monitoring station who is directly involved in the project. The formal leader of the project is the deputy director of the Qingdao Environmental Protection Bureau, a political appointee. The QEPB is under the jurisdiction of the State Environmental Protection Bureau (SEPA).

The Chinese are highly praised for their capacity to absorb the technology transfer from this project on the operational level. The Swedish consultant even calls them “the best clients [he’s] ever had”.³³ The monitoring bureau in Qingdao now has the equipment and capability to measure air pollution and make different simulations to find cost effective ways of reducing it.

Since 1997 the air has also improved considerably in Qingdao. More than 2,000 small coal boiler stations inside the city have been closed down and are substituted by bigger stations. Some of the most polluting industries have also been relocated outside the city centre, or closed down. During the most recent years, air pollution has remained relatively constant, at what in Qingdao is considered a bearable level although improvements are still

²⁸ Gothenburg is situated within the constituency of Länsstyrelsen i västra Götaland och Bohuslän.

²⁹ Interview with ?

³⁰ Interview with Kjell Eriksson of ÅF, contact person for phase 2, formerly at SMHI.

³¹ Interview with Cungkang Song, Deputy Director-General of Qingdao Municipal Environmental Protection Bureau, April 2005.

³² Interview with Kjell Ericsson, of ÅF in March 2005

³³ Ibid.

needed. The SO² content in the air, for example, that used to be 250 micrograms/m³, today measures 50 micrograms/m³; in Sweden it is usually not more than 5 micrograms/m³.

The second part of the project is an action plan for further improvements in pollution control and achieving institutional change. Air quality management is a complicated process involving several bureaus such as transportation, city planning and urban management as well as the financial bureau. There is a special Qingdao air pollution control committee headed by the deputy mayor. They will present an action plan with a budget in March 2006. The same year a new five-year plan for Qingdao will be presented and it remains to be seen what measures for air pollution control that will be incorporated then.

In the SIDA-financed project, besides the education of technicians in Sweden, there has also been a study tour for Qingdao managers and politicians. They have studied the coordination processes for air pollution as well as different technical solutions such as heat pumps using seawater. In Qingdao today 80 per cent of the heating comes from coal and there is a limited amount of high quality coal. Gradually desulphurization will be introduced through economic incentives to power plants as well as increased pollution fees. Another measure studied is the further use of natural gas.

There is an interest in keeping the environment clean in Qingdao as the high property prices as well as the many exhibitions hosted there are dependent on that. Qingdao also wants to make a good impression at the time of the Olympics, but according to Mr Song of the Qingdao Municipal Environmental Protection Bureau³⁴ economic growth is the most important goal for the local government. If they can maintain the present level of pollution that will be good enough and in a few years time they might be able to improve it.

Conclusion

China is a highly unusual recipient of ODA in the sense that it in turn is also a donor of considerable size. China's dependence on ODA is very low, only 0.1 per cent of GDP. The analyses above indicate that China, at the state level, in general seems to have very strong ownership over both the objectives and the processes of ODA; however, once the decisions are made, it effectively channels this ownership as well as responsibility out to the line ministries or the provincial/municipal governments.

Japanese ODA to China to a large extent also reflects aid philosophy as well as aid processes at home. The large amount of money being paid out and the fact that most of it is loan aid gives a certain characteristic to the projects. Compared with the 1980s and 1990s when loan aid was committed in five-year packages, according to shortlists of projects presented by the Chinese side, Japan has recently strengthened its position in its aid discussions with China. Now days the Chinese are presenting long list of projects among which Japan can make a choice according to their own wishes and their own country assistance program for China. This implies that the partnership concept has been strengthened. Public opinion at home, which has been highly critical of ODA to China,³⁵ is a driving force behind this. Poverty reduction, which figures as an overall goal for the Japanese

³⁴ Interview with Cungkang Song, Deputy Director-General of Qingdao Municipal Environmental Protection Bureau, April 2005.

³⁵ The criticism is that 1) Japan's aid to China is not visible; 2) aid allows China to allocate more money for military build-up; 3) China must take its own initiatives in solving problem of poverty; 4) China is also an aid donor. These issues have been dealt with in Marie Söderberg, "The Role of ODA in the Relationship" in Marie Söderberg (ed.), *Chinese-Japanese Relations in the Twenty-first Century, Complementarity and Conflict*, Routledge, London 2002.

government's ODA policy³⁶, does not hold a prominent position in aid to China. Mutual understanding and mutual benefits are frequently occurring concepts in the aid to China. Only a small part of the technical assistance is channelled through JICA. This indicates that there are various special-interest groups in Japan that have a stake in the process.

Let us now turn to an analysis of the ownership concept in our case studies starting with loan aid and the Tianjin Waste Water Management Project. Concerning the ownership of objectives, that is commitment to the projects and organisational competence for executing it, the Chinese certainly had strong ownership both on a state and a provincial level. The Haihe River passing through Tianjin was one of China's three most polluted rivers, on the nation's priority list for cleaning up. The smell that affected the lives of the people in the area, as well as the chronic shortages of water, made it a high priority for the local government as well. The people in Tianjin had former experience of waste water management and thus the organisational competence of executing it. The project will be finished according to schedule in 2005.

Concerning the knowledge output from this project, it can be regarded as a continuation of a build-up of existing knowledge. Tianjin is famous for waste water treatment and already in the 1980s other cities in China were sending their staff to Tianjin for waste water management training; experts from Tianjin have also been dispatched to other areas in China. Deng Biao, the chief engineer at the Tianjin Sewage Company that runs this project, has received training in Germany, the US and Japan. He has worked within the company for 20 years.

As for material input and output, the waste water facilities are clearly Chinese property and the treated water obviously belongs to the Tianjin government that charges the users for it. The loan agreement with Japan was signed by the Chinese central government, but they channelled the loans down to the provincial level (see Appendix 2) so the project now has local ownership.

Concerning the ownership of project processes, that is the assumption of responsibility for project formulation, implementation and control, the blueprint for the project as such was drafted by the Chinese themselves, although they received advice and some ideas from the Japanese who made the feasibility study. The greater part of the Japanese aid money mostly went to purchasing equipment, and the competitive bidding was limited to Japanese and Chinese companies. This was not strictly applied, however, and in the end the people in Tianjin received permission to buy equipment also from Chinese companies that had joint ventures with other foreign companies. Implementation and control of the project was kept in Chinese hands although JBIC as well made control of the purchases financed by their money. One has to bear in mind that only 20 per cent of the project is financed by Japanese loan aid; this fact puts the ownership strongly in the hands of the Chinese, and makes Japanese aid rather invisible to outsiders. Now, in the final stage of the project, there is little contact between JBIC and the Tianjin Waste Water Company.

Things worked a bit different in the Sino-Japan Friendship Centre for Environmental Protection project that was financed jointly by technical cooperation and grant aid. There has been three phases of technical cooperation from 1992-95, 1996-2002 and the present 2002-2006. In the meantime a Centre building financed by a USD 95 million grant aid was ready in 1996. The idea for the centre originally came from Japan that was worried about the

³⁶ According to Japan's revised Official Development Charter of August 2003, peace-building and peace-preservation are also key concepts, but they are not included in this study as the implementation of these concepts seems too early to measure at this stage.

environmental problems in China. The Chinese were a bit lukewarm to the project and thought that they had other, more urgent needs but in the end they came up with the funding of USD 7.5 million for the centre. Besides the building, the Japanese side provided a substantial amount of technical equipment, computers, etc., for pollution monitoring as well as a complete TV-studio for producing educational material on environmental issues. The owner of the buildings is SEPA, the Chinese State Environmental Protection Agency. They are now subletting minor spaces to private tenants as well. The centre is working as a training and information centre for Chinese environmental bureaucrats. They also do technology and environmental policy research. Japanese experts relay their knowledge in various fields to the Chinese, but also train local trainers. A number of Chinese are sent to Japan for various training courses. They acquire personal knowledge that they bring back home with them. The problems they face there is a lack of budget, which make many of them busy doing other fundraising jobs. Although there are good contacts with SEPA, SEPA is compartmentalised and rather weak, which makes it difficult to execute strong environmental policies.

As for ownership of project processes, that is the project formulation, implementation and control, we see a much bigger role for Japan, more of a partnership and weaker Chinese ownership than in the Tianjin loan aid case. The Centre building was designed by a Japanese architect and built by a Japanese construction firm. From an organisational point of view the Centre falls under SEPA, but every division within the centre has a counterpart within the Japanese expert team.

For Sweden as a donor, the overall goal is poverty reduction, which figures prominently in most country strategies, but not for China. In the present strategy, the main goal is to support the inflow of new ideas and that way speed up the ongoing reform processes when it comes to human rights, equality, rule of law and democracy as well as environmentally sustainable development. The Swedish country strategy is a one-sided document with no Chinese ownership and there is no memorandum of understanding exchanged between Sweden and China on aid. Instead there is an exchange of letters for every project. Most aid is in the form of contract financed technical cooperation, with Sida paying the costs for the Swedish consultants and the Chinese side paying for local costs. The suggestions for projects usually come from the Swedish side. Recently EU rules have been applied which makes the processes much slower; also the requirement of competitive bidding for the consultancy part has led to somewhat diminished interest on the part of Swedish consultants. A revision of the rules is underway.

However, in the case of the development of an air quality management system for Qingdao, it was the Chinese side that first came up with the idea. In this way they were already committed to the project. Their organisational competence for executing the project seemed to have been weak, however, as the project never really took off. During the second, current phase, this has changed and there is new Chinese management of the project. Besides the Swedish consultancy service, there was also a considerable amount of technical equipment, computers and software included in both phases. The Chinese also contributed themselves and they now hold the ownership of both material input and output. The knowledge that individuals acquired both through training trips to Sweden, and on-the-spot training in Qingdao, is of course theirs. Some of it is likely to stay within the organisation, but not all. One of the members from phase 1 of the project, for example, has started his own company which will soon have 40 employees. This company is developing software for pollution measurement adapted to Chinese conditions.

Ownership of project processes, that is, the formulation, implementation and control of the project, seems not to have been totally Chinese, but more on a partnership basis. In phase 2, the project was narrowed down to only air pollution and there was competitive bidding for the consultancy. The Chinese side was taking part in evaluating the proposals

together with the Swedes. The technical knowledge and capabilities to adopt and use the new system of air quality management was learned very quickly by the Chinese. If this will lead to any real changes to the reduction of air pollution in the next five-year plan of the Qingdao municipal government, remains to be seen. There are many needs in Qingdao. Meanwhile, the people of the monitoring bureau in Qingdao are discussing the possibilities of getting financing for a third phase of the project where they themselves would go to one of the western provinces in China and teach what they have learnt.

Comparing Swedish and Japanese aid to China is very difficult for several reasons. One is of course the difference of scale, which also has implications for the kind of project you can undertake. Another is the difference in expectations of the donors. Chinese people know that the Japanese are rich, and that they have not yet paid any war compensation. They do not know very much about Swedes, and do not expect very much from them.

Still, it is quite clear that the types of ODA projects the donors propose, or are open to suggestions for, reflect the priorities of their own societies. As a recipient, China wants to keep ownership of its own development and it has its own priorities that vary over time. All the provinces and line ministries are going to come up with their own suggestions so there is plenty to choose from and in Beijing the state will be very careful to see to it that the one who gets anything is going to pay local costs or loans back on their own. China is generally regarded as having a high capacity for absorbing aid and also for paying back, in the case of loan aid. As for institutional change, there is a lot of this going on in China today although most of it is not due to ODA. The population and the economy as such are so huge that aid can only be seed money or a window for contacts, trying to move China in a positive direction.

Appendix 1. China's Foreign Aid

Brief Historical Background

The People's Republic of China started to give aid to other countries perhaps from the mid-1960s when it broke up its traditional friendly relations with the Soviet Union amid continued confrontation with the United States in the world arena. Major recipients of Chinese aid then were probably Vietnam in Southeast Asia (engaging in a civil war that was complicated by the US intervention) and Albania in Balkan Europe (an outspoken opponent to the post-Stalinist Soviet Union). During the "Cultural Revolution" period (1966-1976), Chairman Mao Tse Tung decided to expand aid to a wider range of the "Third World" countries in order to win international friends mainly in Asia, Africa, and Latin America. This occurred at a time when China's domestic economy suffered setbacks and difficulties. An aid project of building a long-distance railway between Tanzania and Zambia during the early 1970s was then a showcase for "internationalism" of Maoist China. One of the payoffs to the policy was that a large number of developing countries supported the PRC in taking the seat at the United Nations in 1971, which was previously taken by Taiwan, the Republic of China.

A first major shift in aid policy occurred in the mid-1970s, in light of emerging international rapprochement from early in the decade, and the deteriorating domestic economy in mid-decade. A decision was made probably late in the decade that no more than one percent of fiscal revenue (or expenditure) should be given for aid purposes (the figure was as high as 6 per cent in 1971). Under the new leadership of Deng Xiao Ping, China moved to focus on internal development, feeling much less isolated than previously.

At some point in the early 1990s, an unofficial quotation says that the amount of aid received and that given was virtually the same. This may have referred to grant aid only. Before the mid-1990s, most of the Chinese aid had been in the form of technical assistance, grant and zero-interest-rate loans. Another unconfirmed quotation says that a top Chinese official told a foreign visitor at some point in the 1990s that "no more zero-interest-rate loans" would be available from then on.

Coincidentally, the 1990s were also a period when the Chinese government began to work more intensively on the diplomatic rivalry with Taiwanese authorities in wooing the so-called "small country friends", located in Africa, Latin America and South Oceania. The number of PRC-aid recipient countries in annual terms increased visibly from the mid-1990s, numbering over one hundred by 2001.

Policy Orientations of Chinese Aid

Traditional PRC aid projects were mostly "turn-key" ones where China dispatched a project team responsible for the design, building, and even initial operation, with material and equipment completely supplied by China. Many projects were in areas such as textile manufacturing, infrastructure, hospitals, sports centres, dams, and so on. Recipients of these sorts of aid-in-kind were less developed countries with per capita incomes similar to China's. It is obvious that the PRC provided and has continued to provide aid to these countries largely for the purposes of establishing and maintaining diplomatic relations with them, serving a long-standing strategy to isolate Taiwan in the international community.

As the domestic economy grew and the demand for imported resource-intensive goods increased over time, China began to pay attention to the possible implications of aid to strengthening economic relations between China and resource-rich countries. Increased Chinese aid – mostly in the form of loan aid – to several large countries in Africa, Central Asia, and Latin America in recent years may have primarily reflected this new orientation.

Another new orientation in China's aid policy which also surfaced in later years, has been its participation in more or less concerted international humanitarian and reconstruction programs in disaster-hit countries and regions. Examples of this include aid to Afghanistan in 2003, and aid to tsunami-affected areas in 2005. In either case, the amount of Chinese aid has been above or close to USD one hundred million.. Another example is that at the Sino-Africa Cooperation Forum held in 2000, the Chinese government announced to waive credit claims up to RMB 10 billion for 32 African countries and least developed countries for two years. The decision to give aid in this way, and such large amounts, seems to have been taken by an ad hoc approach, yet it may reflect an intention of establishing a new image of China in the international community.

Overall, the official Chinese view of aid has remained that the country has a limited capacity for giving aid abroad, whilst it continues to require foreign aid for its own economic and social development.

Reforms in Chinese Aid Practice

Due to obvious reasons, in the past Chinese aid abroad had been mostly bilateral, and little involved with multilateral elements. In practice, aid projects were almost completely run by an exclusive government agency, the Ministry of Commerce, MOFCOM, or its predecessors. Forms of aid were mainly grant in kind, technical assistance, and zero-interest-rate loan aid. It was rare for China to learn from international experience in running aid programs. The old aid system was largely parallel to China's pre-Reform domestic economic system.

From the mid-1990s onwards, the government decided to pursue reforms in the aid area. Several new inputs have been added. First, loan aid (credit at discounted interest rates) is an emphasized aid form, and a domestic bank, the China Import and Export Bank, has been designated as an agency to conduct the loan aid business on behalf of the government. Second, encouragement has been given to the domestic business sector in participating in the aid process, involving project designing, material procuring, hardware, building, and so on. Third, China began to conduct aid programs through multilateral agencies and regional organizations. Thus far China has sent representatives to UN-affiliated agencies involving discussion of aid issues, and engaged in dialogues with several regional organizations in Africa, Asia, and Latin America.

Reforms in the aid area have continued. It has been made clear that the government is working on a legislative bill to publicize the principles and codes for aid undertakings. It is expected that transparency in the aid area will increase over time, and that more emphasis would be given to the issue of efficiency.

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Appendix 2. Re-Lending in China's Loan-Aid Projects

In November 1999, the Chinese Ministry of Finance issued an official document in regulating the use and management of loan aid. The basic principles laid out in the document were reiterated in a joint document by MOF and the State Planning Commission (now the State Development and Reform Commission) in May 2000. The latter was further approved by the State Council in the following month.

According to the documents, most Chinese users of loan aid, regardless of donors or types of loan aid (applicable to both Japanese and Nordic loan-aid projects), are required to receive the proceeds directly from and make repayments (principal and interest) directly to a contracted domestic financial institution who acts on behalf of the foreign lender (loan aid agency). The domestic financial intermediary usually does not participate in the process of negotiation and contracting between parties of a loan aid agreement. It typically arranges a timeframe of cash flows by following the predetermined terms and schedule of a loan aid agreement. The principle and practice has been called “re-lending” of loan-aid in China. The intermediary is often called the re-lending bank or re-lender.

With regard to the issue “who is to bear the responsibility to make repayment if there is a default”, MOF categorizes three types of loan aid projects:

First, ones that a provincial treasury (fiscal) bureau or a central government ministry agrees and has been approved to act as a borrower for the concerned projects. In this case, they are deemed to assume the responsibility of repayment.

Second, ones that an institutional unit, acting as the project operator, agrees and has been approved and guaranteed by a relevant provincial treasury bureau to act as a borrower for the projects in concern. In this case, the provincial treasury bureaus assume the ultimate responsibility of repayment.

Third, ones that the project operator acts as the borrower, and the domestic re-lender (financial intermediary) is to assume the ultimate responsibility of repayment to foreign creditors. In this case, treasury bureaus do not act as a borrower, nor do they provide any guarantee for the projects, and the re-lender may participate in the process of negotiation on terms of a loan-aid agreement.

By requirement, for the first and second categories, the re-lending bank should make repayment to foreign creditors in the first instance whenever there is a default from project operators. Upon verification of default and repayment flows, MOF will act on behalf of the provincial re-lender to recover the cash flows by possibly making deduction from pre-scheduled fiscal transfers to relevant bodies which are deemed responsible for the repayment. It is believed that this policy measure aims at strengthening the discipline of repayment.

In practice, the third case has been relatively rare in the use of loan aid.

Since the early 1980s there have been a number of Chinese banks, non-bank financial institutions, sometimes even including non-financial firms, which have operated as a re-lender. From the late 1990s the re-lending sector was streamlined, with China Import and Export Bank being designated as the major re-lender for many loan-aid projects. Several other state-owned national banks continue to work in this area.

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